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Role Of Forensic Accounting In Detecting Financial Frauds

(Guilty Should Be Exposed)

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ABSTRACT

The study will aid in laying a solid foundation for design and implementation of forensic accounting practices in India. Further the study will also help various policy makers to adopt the good practices in order to protect an organization from financial frauds, the project would be helpful for the students and independent researchers who may further do the research. Forensic accounting is unique in that it combines accounting with investigation. These bloodhounds— as opposed to the watchdogs that are auditors— attempt to sniff out fraudulent transactions from the financial records of banks and Companies. Forensic Accounting encompasses both Litigation Support and Investigative Accounting. As Forensic Accountants, they utilize accounting, auditing and investigative skills when conducting an investigation. Forensic Accountants are trained to look beyond the numbers and deal with the business reality of the situation. s. He needs to question seemingly benign document and look for inconsistencies. He searches for evidence of criminal conduct or assists in the determination of, or rebuttal of, claimed damages External Auditors find out the deliberate misstatements only but the Forensic Accountants find out the misstatements deliberately. External auditors look at the numbers but the forensic auditors look beyond the numbers.

Keywords: Forensic Accounting, Financial Frauds

INTRODCUTION

Forensic accounting is still nascent in India. However, the nature of fraud in India has undergone a change. Reserve Bank of India has made forensic accounting audit compulsory for banks in India. However, banks are hesitant in approaching certified fraud examiners, and are mostly dependent on their internal auditors. In India the formation of Serious Fraud Investigation Office is the landmark creation for the Forensic Accountants. Growing cybercrimes, failure of regulators to track the security scams, series of co-operative

banks bursting – all are pinpointing the need of forensic accounting, irrespective of whether we understand the need or not. In the Indian context the Forensic Accountants are in demand in the wake of the growing frauds. After the Satyam scam, forensic auditors are much in demand as many companies want to understand what could be the initial warning signals of a Satyam kind of fraud in other Indian companies. Even the government's Serious Fraud Investigation Office (SFIO) had sought the help of forensic accountants to get to the root of the financial fraud at Satyam.

The integration of accounting, auditing and investigative skills yields the specialty known as Forensic Accounting. "Forensic accounting" provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution. Forensic Accounting encompasses both Litigation Support and Investigative Accounting. As Forensic Accountants, they utilize accounting, auditing and investigative skills when conducting an investigation. Forensic Accountants are trained to look beyond the numbers and deal with the business reality of the situation. Now in 21st century, Forensic accounting has come into limelight due to rapid increase in financial frauds and white-collar crimes. Fraud was something the internal or external auditors were supposed to guard against through their periodic audits. Now, the accountants know that auditors can only check for the compliance of a company's books to generally accepted accounting principles, auditing standards, and company policies. Thus, a new category of accounting was needed to detect the fraud in companies that suspected fraudulent transactions. This area of accounting is known as 'forensic accounting' Forensic Accounting is a simply analysis of evidences. Forensic accounting is the specialty practice area of accounting that describes engagements, which result from real or anticipated litigation. The word forensic accounting can be divided into two parts - • Forensic means relating to, or used in courts of law or public debate or argument. • Accounting means language that provides information about the financial position of an organization.

According to American Institute of Certified Public Accountants (AICPA): "Forensic accounting is the application of accounting principles, theories and disciplines to facts or hypothesis at issues in a legal dispute and encompasses every branch of accounting knowledge.

REVIEW OF LITERATURE

Lalit W, Dr Virender Pal, 2012, " Forensic Accounting and Fraud Examination in India International Journal of Applied Engineering Research ISSN 0973-4562 Volume 7 , No 11 In this research article the authors have highlighted that various techniques of Forensic Accounting can be used to detect the frauds and it has come to India into limelight only recently due to rapid increase in frauds and white collar crimes and the inability of our law enforcement agencies in terms of expertise and time to prevent or uncover these frauds where it has impacted the innocent investors who remains mute spectator to these occurrences. The author has also touched upon types of frauds, scams with special reference to India sharing statistical data. It also touches upon use and techniques of forensic accounting for effective implementation

Madan Lal Bhasin (2013) “Corporate Accounting Fraud: A case study of Satyam Computers limited, Open Journal of Accounting pp 26-38 An attempt has been made to examine and analyze in-depth the Satyam Computers’ Computer’s “Creative accounting scandal which brought to limelight the importance of “ethics and Corporate Governance (CG). It states that major fraud needs to be studied for lessons learned and strategies to follow to reduce these types of frauds in future. It is well said that those forget history are condemned to repeat it. The Research paper touches upon the explanation regarding fraud and the financial implications with respect to frauds. It gives a glimpses of lesson learnt from Satyam Scam.

Lalita B.M., “ The Effectiveness of Forensic Accounting in Detecting , Investigating, and Preventing Frauds in India, Online International Interdisciplinary Research Journal, {Bi-Monthly}, ISSN2249-9598, VolumeIII, Issue-III, May-June 2013 This paper study on the effectiveness of forensic auditing in detecting, investigating, and preventing frauds. The study sought to find out to what level the forensic auditors are able to fulfill this mandate and investigate problems that hinder forensic auditors to make progress in their operations in developing countries like India. It also established the role of forensic auditing in corporate sector The paper is based on secondary data. It was found that the forensic auditing departments suffer from multiple challenges, amongst them being the lack of material resources, technical knowhow, interference from management, and unclear recognition of the profession. Types of bank fraud were identified. The internationally recognized audit procedures used in detecting and investigating these frauds were discussed. In conclusion, forensic auditors must be capacitated materially and technically to improve their effectiveness. In addition, the forensic auditors should create a constituted body that serves their interests and regulate the activities just like any other profession.

Dr. Anita Sharma, “ Frauds in India and Forensic Accounting”, International Journal of Research & Development in Technology and Management Science-Kailash, Volume -21,Issue 5 ,December 2014,ISBN 1- 63102-449-3,European article number (EAN) 978-163-102-449-8 The author has observed that the increased number of frauds and the helplessness of the authorities to combat them have brought the Forensic Accounting in the limelight. Forensic accounting is the specialty practice area of accounting that describes engagements which result from real or anticipated litigation. Forensic accounting is very important tool to detect, investigate and prevent the frauds. In order to detect and prevent financial frauds and white collar crimes forensic accounting is making use of various tools. In this paper an attempt has been made to discuss the various types of frauds which are hampering the growth of the economy and the use of Forensic Accounting tools to combat with them.

Nada A, Goranka K, Natasa S, Sofija V, (2014) , “ Forensic Accountant: Innate Trait or Acquired Skill ? , Finiz, Siingdunum University International Scientific Conference 131-134 In this paper the authors have shared the experiences and opinions’ of various authors in order to determine which skills and traits are relevant to profession of forensic accountant. They have concluded that combination of traits, skills and knowledge as well as experience improve the quality of forensic accountants’ work, moreover through the experience forensic accountant complement and enhance their personal traits, while at the same time develop their intuitive abilities and improve the quality of investigative work.

K.A.Kapadia,“ Recurring Failures in Corporate Governance : A Global Syndrome, International Journal of Research in Commerce, Economics & Management, Volume No. 6 (2016), Issue no.4 (April), page 66-70 In this paper author has examined that the recurrence of corporate governance disasters in highly developed, as well as developing, economies reminds us that the price of economic growth and opportunity is indeed eternal vigilance. Understanding the differences in the institutional contexts helps us to realize that what works to curb governance failures in one context may be less effective in another, and that the timing and focus of reforms should reflect the realities of the economic and institutional conditions that different nations face. Ultimately, the most effective and sustainable governance reforms would be those that simultaneously increase the costs of corporate raids and decrease the benefits that individuals and corporations can derive from ignoring governance norms and laws.

RESEARCH GAP

The forensic Accountant is a bloodhound of Bookkeeping. These bloodhounds sniff out fraud and criminal transactions in bank, corporate entity or from any other organization's financial records. They hound for the conclusive evidences. External Auditors find out the deliberate misstatements only but the Forensic Accountants find out the misstatements deliberately. External auditors look at the numbers but the forensic auditors look beyond the numbers. Forensic accountant takes a more proactive, sceptical approach in examining the books of Accounting. They make no assumption of management integrity (if they can assume so then there is no need for their appointment) show less concerns for the arithmetical accuracy have nothing to do with the Accounting or Assurance standards but are keen in exposing any possibility of fraud. In addition to the specialized knowledge about the techniques of finding out the frauds one needs patience and analytical mindset. One has to look beyond the numbers and grasp the substance of the situation. It is basically the work of the intelligent accountants. He needs to question seemingly benign document and look for inconsistencies. He searches for evidence of criminal conduct or assists in the determination of damages. Hence we have selected the title “ROLE OF FORENSIC ACCOUNTING IN DETECTING FINANCIAL FRAUDS”.

RESEARCH OBJECTIVES

- To study and examine the role of forensic accounting in detecting Financial Frauds.
- To study the role and scope of forensic accountants in fraud examination.

RESULTS OF THE STUDY

OBJECTIVE 1

To study and examine the role of forensic accounting in detecting Financial Frauds.

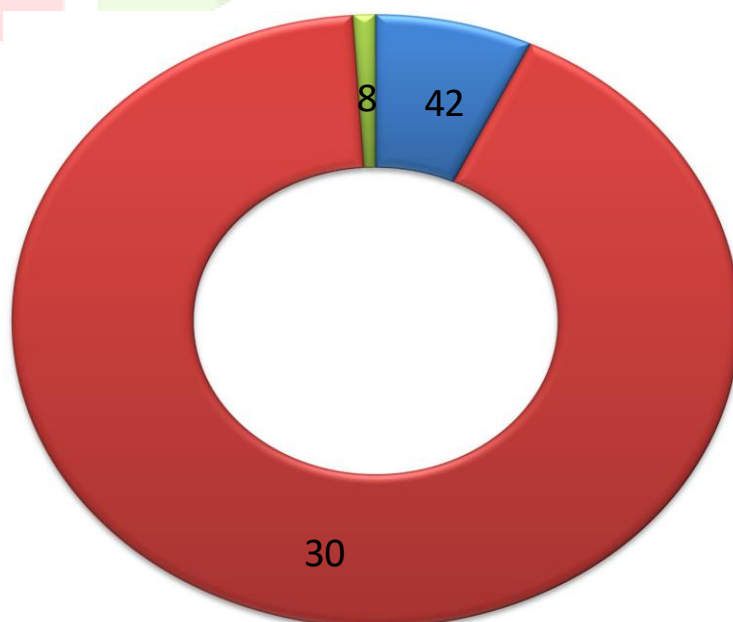
Table No. 1

Statement showing whether Research sample selected of Chartered Accountants have both Employment and Part Time Practice

Sr. No.	Full Time Employment along with Part Time Practice	Number of Chartered Accountants selected as Research sample	Number of Chartered Accountants selected as Research sample in percentage
1	Yes	42	45% (5)
2	No	30	36% (4)
3	Neutral	12	18% (2)
	Total	84	11

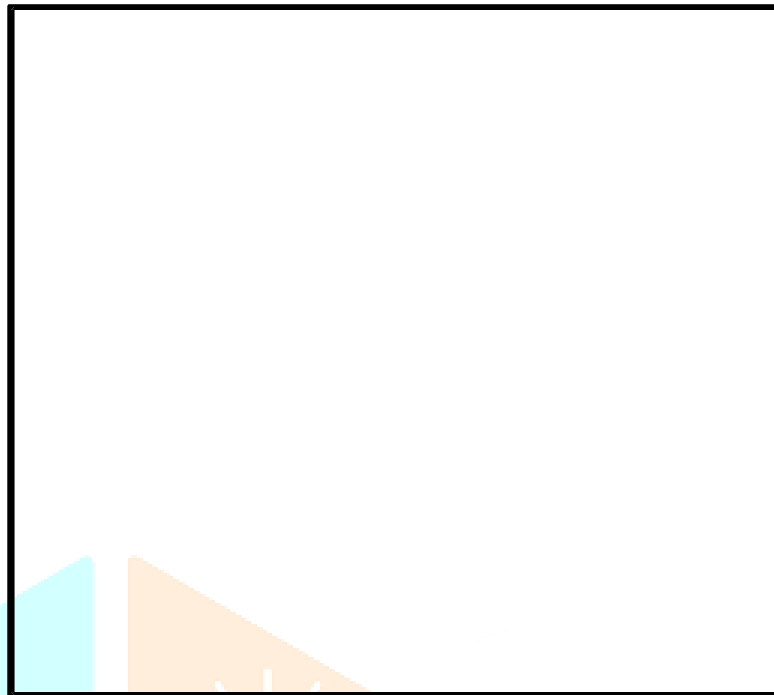
Source: Primary Data

In terms of employment and part time practice it is observed 42 percent were having both employment and part time practice, 30 percent were into full time employment with no part time practice.



Graph No 1

Whether Research sample selected of Chartered Accountants have both Employment and Part Time Practice



YES
NO
NEUTRAL



Whether Forensic Accounting Reduces occurrence of Financial Frauds in an organization?

Table No. 2

Table showing Forensic Accounting reduces occurrences of financial Frauds in an organization

Sr. No	Forensic Accounting Reduces Occurrences of Financial Frauds in an organization	Number of Chartered Accountant selected as Research sample	Number of Chartered Accountants selected as Research sample in percentage
1	Yes	42	45% (5)
2	No	30	36% (4)
3	Neutral	12	18% (2)
	Total	84	11

Source: Primary Data

the researcher observed It is observed that 45 percent agreed positively that Forensic Accounting

reduces occurrence of financial frauds in an organization, 36 percent disagreed and responded that Forensic Accounting does not reduce occurrence of financial frauds in an organization. 18% remained neutral.

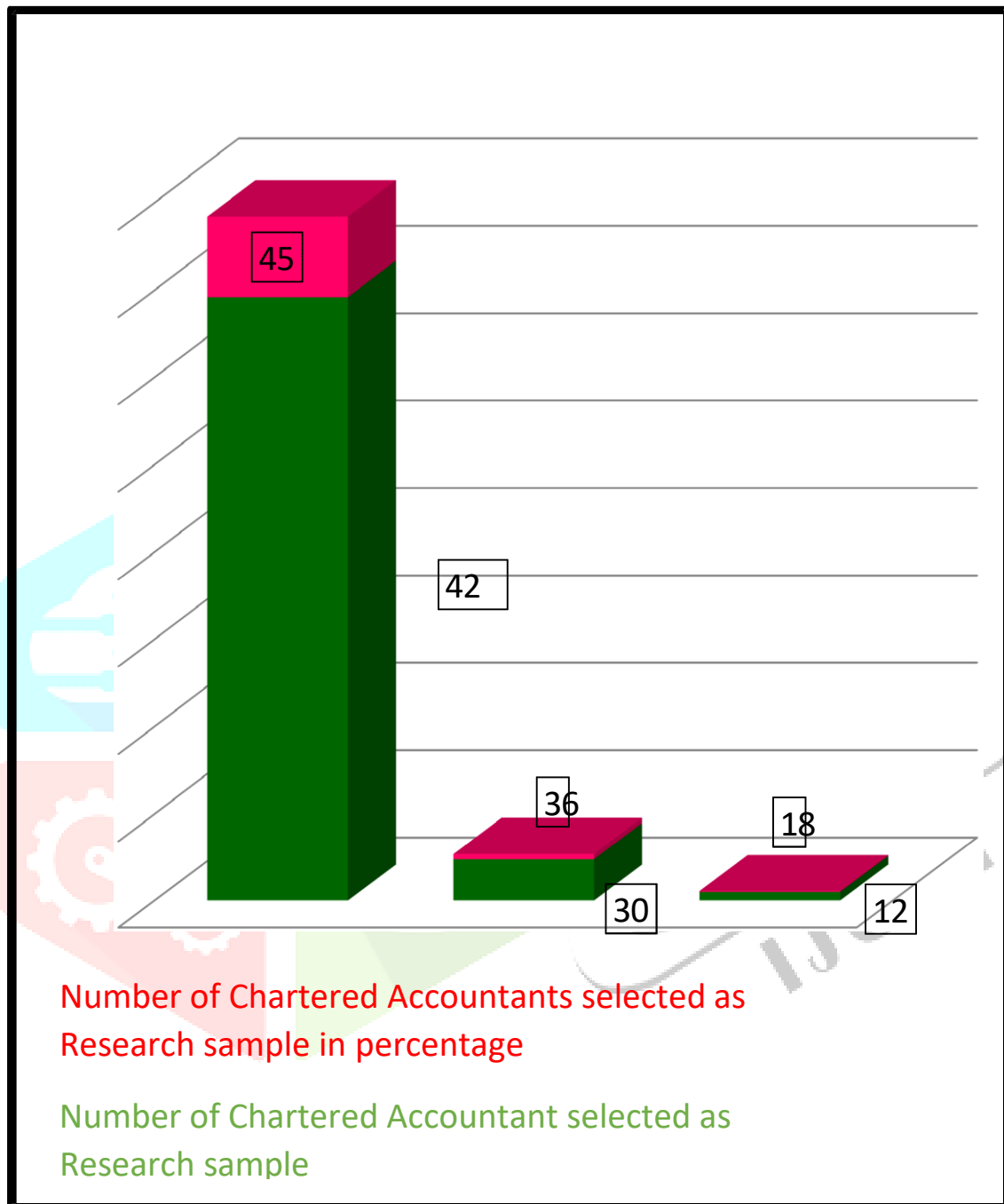


Table No.3

Statement showing Forensic Accounting protects organization from Financial Risks

Sr. No	Forensic Accounting protects Organization from Financial Risks	Number of Chartered Accountant selected as Research sample	Number of Chartered Accountants selected as Research sample in percentage
1	Yes	42	64% (7)
2	No	30	9% (1)
3	Neutral	12	27% (3)
	Total	84	11

Source: Primary Data

The researcher observed out of 11 Chartered Accountants, it is observed that 64 percent responded that they are aware of forensic accounting protects organization from financial risks, 9 percent were not aware. Thus the presence of Forensic accounting protects the organization from financial risks.

Table No. 4

Statement showing whether any Fraud was detected by the Research sample selected Chartered Accountant in his area of work

Sr. No	Whether any Fraud was detected by Chartered Accountant in his area of work	Number of Chartered Accountant selected as Research sample	Number of Chartered Accountants selected as Research sample in percentage
1	Yes	42	73% (8)
2	No	30	18% (2)
3	Neutral	12	9% (1)
	Total	84	11

Source: Primary Data

The researcher observed out of 11 Chartered Accountants, it is observed that 73 percent responded that frauds were detected, Chartered Accountant while occupying the senior management position in an organization 18 percent answered in negative and 9 % remained neutral.

OBJECTIVE 2

To study the role and scope of forensic accountants in fraud examination

Table No. 5

Statement showing whether Checks and Measures incorporated to control financial Frauds and Errors

Sr. No	Checks and Measures incorporated in the organization to control financial Frauds and Errors	Number of Chartered Accountant selected as Research sample	Number of Chartered Accountants selected as Research sample in percentage
1	Yes	42	73% (8)
2	No	30	18% (2)
3	Neutral	12	9% (1)
	Total	84	11

Source: Primary Data

The researcher observed out of 84 Chartered Accountants, it is observed that is 73 percent responded that they incorporated strong check and measures to protect the organization from any frauds and errors, 18 percent answered in negative as their organization had no checks and measures to guard against financial irregularities and 9 % remained neutral.

Table No. 6

Statement showing statistical tools have been incorporated to detect and control financial frauds

Sr. No	Statistical Tools incorporated to detect and Control Financial Frauds	Number of Chartered Accountant selected as Research sample	Number of Chartered Accountants selected as Research sample in percentage
1	General Audit Techniques	40	6
2	Statistical & Mathematical Techniques	20	2
3	Digital & Electronic Techniques	15	1
4	Data Mining	5	1
3	All of the above	4	1
	Total	84	11

Source: Primary Data

The researchers have observed that 6% of them are found that they use Green audit, 2% of them statistical techniques and 1% of them have used digital, data mining and all the above techniques.

Table No. 7

Statement showing circumstances/events that might encourage the temptation to indulge in fraudulent financial reporting

Sr. No	Whether there are events/circumstances which encourage the temptation to indulge in fraudulent financial reporting	Number of Chartered Accountant selected as Research sample	Number of Chartered Accountants selected as Research sample in percentage
1	Yes	54	6
2	No	15	5
3	Neutral	15	1
	Total	84	11

Source: Primary Data

The researcher observed that out of 84 Chartered Accountants 6 percent responded positively that there are events which encourage the fraudulent behavior in an organization towards financial irregularities, 5 percent answered in negative making corporate vulnerable to fraudulent financial reporting. 1 percent remained neutral.

Table No.8

Statement showing whether Training is being imparted in Organisation

Sr. No	Whether Training is being imparted to Accounts and Finance departed to make them aware about the techniques to protect organization from financial frauds	Number of Chartered Accountant selected as Research sample	Number of Chartered Accountants selected as Research sample in percentage
1	Yes	64	8
2	No	10	2
3	Neutral	10	1
	Total	84	11

Source: Primary Data

The researchers have observed that out of 11 chartered accountants 8% of them are agreeing to training facilities provide where as 2% and 1% of them are disagreeing to the fact that no training facilities are created for awareness on financial frauds.

FINDINGS

- ✓ It is clearly found that many of the auditors are well aware of the fact that they have huge a role to play in detecting financial crimes as a part of forensic accounting.
- ✓ Many auditors also agreeing to that forensic accounting has a strong impact of its techniques in detecting and preventing financial crimes.
- ✓ Most of the chartered accountants felt that forensic accounting and its investigators will act as BLOODHOUND book keepers.
- ✓ Forensic accounting and auditing both has to go hand in hand and they will ensure that keen observations are being made and curbing financial crimes becomes as easy task.
- ✓ The techniques of forensic accounting in curbing frauds such data mining, green audit, statistical techniques etc. will have vital role to play in the same process.
- ✓ Most of the chartered accountants feel comfortable in agreeing to training facilities created for detecting financial frauds.

RECOMMENDATIONS

- Firms must give enough freedom to the auditors or investigators for detecting frauds
- Organizations must serve all the documentary evidences in support of such frauds.
- Chartered accountants must be given a senior confidential position in the business concern.
- Coordination among the accounts and audit staff must be placed whenever there is scenario created for frauds.
- Organizations must provide enough amenities for detecting and preventing financial frauds such as installation of certain soft wares, techniques and eligible people recruitment.
- Finally, forensic accounting and auditing- as its practical implementation they must follow the guidelines of regulatory bodies in India.

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